

**KUUMBA ACADEMY CHARTER SCHOOL
(A Component Unit of the State of Delaware)
Wilmington, Delaware**

FINANCIAL STATEMENTS

JUNE 30, 2007

KUUMBA ACADEMY CHARTER SCHOOL
(A Component Unit of the State of Delaware)

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December 4, 2007

Board of Directors
Kuumba Academy Charter School
Wilmington, Delaware

We have audited the accompanying basic financial statements of the governmental activities and general fund of Kuumba Academy Charter School (the "School"), Wilmington, Delaware (a component unit of the State of Delaware) as of and for the years ended June 30, 2007 and 2006, which collectively comprise the School's basic financial statements, as listed in the table of contents. These basic financial statements are the responsibility of the School's management. Our responsibility is to express opinions on these financial statements based on our audits.

We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audits provide a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and general fund of Kuumba Academy Charter School as of June 30, 2007 and 2006, and the respective changes in financial position thereof, for the years then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with *Government Auditing Standards*, we have also issued our report dated December 4, 2007, on our consideration of the School's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis and the budgetary comparison information on pages 3 through 8 and page 24, respectively, are not required parts of the basic financial statements but are supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Board of Directors
Kuumba Academy Charter School

Our audits were conducted for the purpose of forming opinions on the financial statements that collectively comprise Kuumba Academy Charter School's basic financial statements. The schedules on pages 25-27 are presented for purposes of additional analysis and are not a required part of the basic financial statements. These schedules have been subjected to the auditing procedures applied in the audits of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

Barbacane, Thornton & Company
BARBACANE, THORNTON & COMPANY

**MANAGEMENT'S DISCUSSION
AND ANALYSIS SECTION**

**Kuumba Academy Charter School
Management's Discussion and Analysis - unaudited
For Fiscal Year Ended June 30, 2007**

This discussion and analysis of the financial performance of Kuumba Academy Charter School ("Kuumba") provides an overview of the School's financial activities for the fiscal year ended June 30, 2007.

Financial Highlights

Kuumba's net assets reflect a \$14,867 negative balance. Program revenues accounted for \$295,418 or 9.7 percent, of total revenue, and general revenues accounted for \$2.723 million, or 90.3 percent.

The governmental fund reported a negative fund balance in the amount of \$77,066.

Using this Annual Financial Report

This annual financial report consists of a series of financial statements and notes to those statements. The statements are organized so the reader can understand the School as a whole and then proceed to provide an increasingly detailed look at specific financial activities.

Reporting Kuumba Academy as a Whole

Fiscal year 2007 is the School's sixth year of operations. One of the most important questions asked about school finances is, "Is the School better or worse off as a result of the year's activities?". The Statement of Net Assets and the Statement of Activities report information about the School as a whole and about its activities in a manner that helps to answer this question. These statements include all assets and liabilities using the accrual basis of accounting similar to the accounting used by private sector corporations. All of the current year's revenue and expenses are taken into consideration regardless of when cash is received or paid.

These two statements report the School's net assets and changes in them. The change in net assets provides the reader with a tool to assist in determining whether the School's financial health is improving or deteriorating. The reader will need to consider other nonfinancial factors such as educational related legislation, student enrollment growth, facility conditions and other issues in arriving at a conclusion regarding the overall health of the School.

Reporting the School's Most Significant Fund

Most of the School's activities are reported in governmental funds, which focus on how money flows into and out of those funds and the year-end balances available for spending in future periods. This fund is reported using the modified accrual basis of accounting which measures cash and other financial assets that can readily be converted to cash. The governmental fund statements provide a detailed short-term view of the School's general operations and the basic services it provides. Governmental fund information helps one determine whether there are more or fewer financial resources available to spend in the near future to finance the School's programs and/or operations. The relationship (or differences) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and the governmental fund is reconciled in the basic financial statements.

Kuumba Academy Charter School
Management's Discussion and Analysis - unaudited (cont'd)
For Fiscal Year Ended June 30, 2007

Entity-wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of the government's financial position. In the case of the School, liabilities exceed assets by \$14,867 at the close of the fiscal year. The School's unrestricted net assets were a negative \$77,066. This deficit will be funded with future surplus. The remaining \$62,199 was invested in capital assets net of related debt.

A comparative net asset analysis of fiscal years 2006-2007 follows:

Net Assets
(amounts expressed in thousands)

	Governmental Activities	
	2007	2006
Assets:		
Current assets	\$ 167	\$ 103
Noncurrent assets	62	62
Total Assets	<u>229</u>	<u>165</u>
Liabilities:		
Current liabilities	244	311
Total Liabilities	<u>244</u>	<u>311</u>
Net Assets:		
Investment in capital assets, net of related debt	62	62
Unrestricted (Deficit)	(77)	(208)
Total Net Assets	<u>\$ (15)</u>	<u>\$ (146)</u>

The unrestricted net assets deficit will be funded with future surplus.

Statement of Activities
(amounts expressed in thousands)

	Governmental Activities	
	2007	2006*
Revenues:		
General revenue:		
Charges to school districts	\$ 757	\$ 628
Payments from primary government	1,637	1,388
Earnings on cash and investments	8	11
Other local sources	41	12
Program revenue:		
Charges for services	19	21
Operating grants and contributions	557	497
Total Revenue	<u>3,019</u>	<u>2,557</u>

* Restated for comparative purposes.

Kuumba Academy Charter School
Management's Discussion and Analysis - unaudited (cont'd)
For Fiscal Year Ended June 30, 2007

Statement of Activities
(amounts expressed in thousands)

(continued)

	Governmental Activities	
	2007	2006*
Expenses:		
Instructional services	2,318	2,348
Support services:		
Operation and maintenance of facilities	350	263
Transportation	114	80
School lunch services	106	68
Total Expenses	<u>2,888</u>	<u>2,759</u>
CHANGE IN NET ASSETS	131	(202)
NET ASSETS (DEFICIT), BEGINNING OF YEAR	(146)	56
NET ASSETS (DEFICIT), END OF YEAR	<u>\$ (15)</u>	<u>\$ (146)</u>

* Restated for comparative purposes.

The Statement of Activities shows the cost of program services and the charges for services and grants offsetting those services. Charges to school districts increased as a result of an increase in student enrollment, as well as an increase in per pupil allocation from the respective districts. Operating grants and contributions increased due to an increase in grants received in 2007 as a result of the School obtaining additional grants to help offset the costs of the School in 2007. The table below reflects the cost of program services and the net cost of those services after taking into account the program revenue for the governmental activities.

(amounts expressed in thousands)

	2007 Services		2006 Services	
	Total Cost	Net Cost	Total Cost	Net Cost*
Governmental Activities:				
Instructional services	\$ 2,318	\$ 1,967	\$ 2,348	\$ 1,957
Support services:				
Operation and maintenance of facilities	350	240	263	224
Transportation	114	114	80	80
School lunch services	106	(9)	68	(19)
Total Expenses	<u>\$ 2,888</u>	<u>\$ 2,312</u>	<u>\$ 2,759</u>	<u>\$ 2,242</u>

* Restated for comparative purposes.

THE SCHOOL'S FUNDS

The School's governmental fund reported a deficit fund balance of \$77,066, which is an improvement from the prior year as a result of increased operating revenues. Instructional services decreased due to the decrease in personnel costs. Operation and maintenance of facilities increased due to two separate instances of pipes bursting. Food services increased due to the increase in the cost of food.

Kuumba Academy Charter School
Management's Discussion and Analysis - unaudited (cont'd)
For Fiscal Year Ended June 30, 2007

Governmental Fund

The tables that follow assist in illustrating the financial activities of the general fund.

(amounts expressed in thousands)

	2007 Actual	2006 Actual
Revenues:		
Charge to school districts	\$ 757	\$ 628
State aid	1,637	1,388
Federal aid	281	336
Earnings on cash and investments	8	11
Contributions	180	94
Rentals and sales	132	79
School lunch fees	19	20
Other local sources	5	1
Total Revenues	\$ 3,019	\$ 2,557

(amounts expressed in thousands)

	2007 Actual	2006 Actual
Expenditures		
Current:		
Instructional services	\$ 2,308	\$ 2,339
Operation and maintenance of facilities	344	260
Transportation	114	80
Food services	105	66
Capital outlays:		
Equipment	17	8
Total Expenditures	\$ 2,888	\$ 2,753

The majority of Kuumba Academy's total revenue (79 percent) comes from state sources and local school districts. State and local revenue are contingent upon the School's total enrollment population and the students' residential districts. The socio-economic diversity and special needs of the School's population dictate entitlement to federal funding, which accounts for only nine percent of total revenue. Contributions account for six percent of total revenue. The reliance on this revenue is to support programs and facility expenditures that are not allotted for in federal, state and local funds.

**Kuumba Academy Charter School
Management's Discussion and Analysis - unaudited (cont'd)
For Fiscal Year Ended June 30, 2007**

General Fund Budget Information

Kuumba Academy's budget is prepared in accordance with the modified accrual basis of accounting.

Appropriate adjustments are made to the budget based on unanticipated revenue increases or shortfalls due to federal, state and Delaware Department of Education requirements and/or legislation, lack of contributions, etc. Some appropriations required changes in functional categories due to spending patterns. The original budget was not amended during fiscal year 2007.

The following are explanations for the more significant variances between budget versus actual revenues and expenditures as shown on page 24.

Revenues

State Aid - The favorable variance of \$320,431 is attributed to funding received for the salary of a school principal (for the first time) and funding received to supplement the higher costs of the newly certified teachers.

Expenditures

Salaries and Employment Costs - The favorable variance of \$109,096 is attributed to a reduction in the number of employees.

Supplies and Materials - The unfavorable variance of \$131,022 is attributed to an increase in the cost of cafeteria food and supplies, the purchase of new textbooks and minimal control of supplies ordered at the beginning of the school year. During the year, the School implemented controls and only one individual orders materials and supplies.

Capital Assets

The School has \$62,199 invested in capital assets, net of depreciation, all of which is attributed to governmental activities. Acquisition for governmental activities totaled \$17,228, and depreciation was \$17,048. Detailed information regarding capital assets activity is included in the notes to the basic financial statements.

Long-Term Debt

The School does not have any debt as of June 30, 2007.

**Kuumba Academy Charter School
Management's Discussion and Analysis - unaudited (cont'd)
For Fiscal Year Ended June 30, 2007**

Factors Expected to have an Effect on Future Operations

The School has identified a growing need to provide students with additional support services and educational programs. Many of these programs will require additional resources not adequately funded with federal, state or local district revenue. Also, potential cutbacks in educational spending at the federal and state level could further extend the School's financial resources to meet the State's accountability requirements. In anticipation of these events, the School is taking steps to increase the percentage of funding from nongovernmental resources.

Contacting the School's Financial Management

This financial report is designed to provide our fellow citizens, customers, investors and creditors with a general overview of the School's finances and to show the School's accountability for the money it receives. If you have questions about this report or need additional financial information, contact the School's Director of Finance's Office at (302) 472-6450.

BASIC FINANCIAL STATEMENTS SECTION

KUUMBA ACADEMY CHARTER SCHOOL
STATEMENTS OF NET ASSETS
JUNE 30, 2007 AND 2006

	<u>Governmental Activities</u>	
	<u>2007</u>	<u>2006*</u>
ASSETS		
Current Assets:		
Cash and cash equivalents		
Unrestricted	\$ 136,356	\$ 99,748
Receivables		
Due from Christina School District	12,652	-
Due from Colonial School District	2,335	-
Other receivables	<u>15,759</u>	<u>3,348</u>
Total Current Assets	167,102	103,096
Noncurrent Assets:		
Capital assets, net of depreciation	<u>62,199</u>	<u>62,019</u>
TOTAL ASSETS	<u>\$ 229,301</u>	<u>\$ 165,115</u>
 LIABILITIES AND NET ASSETS		
Current Liabilities:		
Accounts payable		
Trade	\$ 33,912	\$ 22,052
Due to State of Delaware - pension costs	27,195	42,231
Accrued salaries	179,226	242,811
Deferred revenue	<u>3,835</u>	<u>3,835</u>
Total Current Liabilities	<u>244,168</u>	<u>310,929</u>
NET ASSETS (DEFICIT):		
Invested in capital assets, net of related debt	62,199	62,019
Unrestricted (Deficit)	<u>(77,066)</u>	<u>(207,833)</u>
Total Net Assets (Deficit)	<u>(14,867)</u>	<u>(145,814)</u>
TOTAL LIABILITIES AND NET ASSETS	<u>\$ 229,301</u>	<u>\$ 165,115</u>

* Restated for comparative purposes.

The accompanying notes are an integral part of these financial statements.

KUUMBA ACADEMY CHARTER SCHOOL
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2007

	Expenses	Charges for Services	Program Revenues Operating Grants and Contributions	Capital Grants and Contributions	Net (Expense) Revenues and Changes in Net Assets Total
GOVERNMENTAL ACTIVITIES					
Instructional services					
Support services:					
Operation and maintenance of facilities	(349,939)	-	110,094	-	(239,845)
Transportation	(114,280)	-	-	-	(114,280)
School lunch services	(106,182)	18,717	96,287	-	8,822
TOTAL GOVERNMENTAL ACTIVITIES	<u>\$(2,888,026)</u>	<u>\$ 18,717</u>	<u>\$ 557,321</u>	<u>\$ -</u>	<u>\$(2,311,988)</u>
GENERAL REVENUES					
Charges to school districts					756,906
Payments from primary government					1,636,625
Earnings on cash and investments					8,459
Other local sources					40,945
TOTAL GENERAL REVENUES					<u>2,442,935</u>
CHANGE IN NET ASSETS					130,947
NET ASSETS (DEFICIT), BEGINNING OF YEAR					<u>(145,814)</u>
NET ASSETS (DEFICIT), END OF YEAR					<u>\$ (14,867)</u>

The accompanying notes are an integral part of these financial statements.

KUUMBA ACADEMY CHARTER SCHOOL
STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED JUNE 30, 2006

	Expenses	Charges for Services	Program Revenues Operating Grants and Contributions*	Capital Grants and Contributions	Net (Expense) Revenues and Changes in Net Assets Total*
GOVERNMENTAL ACTIVITIES					
Instructional services	\$ (2,348,466)	\$ -	\$ 391,112	\$ -	\$ (1,957,354)
Support services:					
Operation and maintenance of facilities	(262,806)	-	38,852	-	(223,954)
Transportation	(79,888)	-	-	-	(79,888)
School lunch services	(68,108)	20,062	67,430	-	19,384
TOTAL GOVERNMENTAL ACTIVITIES	<u>\$ (2,759,268)</u>	<u>\$ 20,062</u>	<u>\$ 497,394</u>	<u>\$ -</u>	<u>(2,241,812)</u>
GENERAL REVENUES					
Charges to school districts					628,277
Payments from primary government					1,388,319
Earnings on cash and investments					11,313
Other local sources					12,211
TOTAL GENERAL REVENUES					<u>2,040,120</u>
CHANGE IN NET ASSETS					(201,692)
NET ASSETS, BEGINNING OF YEAR					<u>55,878</u>
NET ASSETS (DEFICIT), END OF YEAR					<u>\$ (145,814)</u>

* Restated for comparative purposes.
The accompanying notes are an integral part of these financial statements.

KUUMBA ACADEMY CHARTER SCHOOL
BALANCE SHEETS - GOVERNMENTAL FUNDS
JUNE 30, 2007 and 2006

	<u>General Fund</u>	
	<u>2007</u>	<u>2006*</u>
ASSETS		
Current Assets:		
Cash and cash equivalents:		
Unrestricted	\$ 136,356	\$ 99,748
Receivables		
Due from Christina School District	12,652	-
Due from Colonial School District	2,335	-
Other receivables	<u>15,759</u>	<u>3,348</u>
TOTAL ASSETS	<u>\$ 167,102</u>	<u>\$ 103,096</u>
LIABILITIES AND FUND BALANCES		
LIABILITIES:		
Accounts payable:		
Trade	\$ 33,912	\$ 22,052
Due to State of Delaware - pension costs	27,195	42,231
Accrued salaries	179,226	242,811
Deferred revenue	<u>3,835</u>	<u>3,835</u>
Total Liabilities	<u>244,168</u>	<u>310,929</u>
FUND BALANCES (DEFICIT):		
Unreserved (Deficit)	<u>(77,066)</u>	<u>(207,833)</u>
Total Fund Balances (Deficit)	<u>(77,066)</u>	<u>(207,833)</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 167,102</u>	<u>\$ 103,096</u>

* Restated for comparative purposes.

The accompanying notes are an integral part of these financial statements.

KUUMBA ACADEMY CHARTER SCHOOL
RECONCILIATION OF BALANCE SHEETS - GOVERNMENTAL FUNDS TO STATEMENTS OF NET ASSETS
JUNE 30, 2007 AND 2006

	<u>2007</u>	<u>2006</u>
TOTAL FUND BALANCES (DEFICIT) - GOVERNMENTAL FUNDS	\$ (77,066)	\$ (207,833)

Amounts reported for governmental activities in the statement of net assets are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds. Capital assets net of accumulated depreciation as detailed in the footnotes are included in the statement of net assets.

	<u>62,199</u>	<u>62,019</u>
TOTAL NET ASSETS - GOVERNMENTAL ACTIVITIES	<u>\$ (14,867)</u>	<u>\$ (145,814)</u>

The accompanying notes are an integral part of these financial statements.

KUUMBA ACADEMY CHARTER SCHOOL
STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES - GOVERNMENTAL FUNDS
FOR THE YEARS ENDED JUNE 30, 2007 AND 2006

	<u>General Fund</u>	
	<u>2007</u>	<u>2006</u>
REVENUES		
Charges to school districts	\$ 756,906	\$ 628,277
State aid	1,636,625	1,388,319
Federal aid	280,620	336,112
Earnings on cash and investments	8,459	11,313
Contributions	180,414	93,852
Rentals and sales	131,580	79,268
School lunch fees	18,717	20,062
Other local sources	<u>5,652</u>	<u>373</u>
TOTAL REVENUES	<u>3,018,973</u>	<u>2,557,576</u>
EXPENDITURES		
Current:		
Instructional services	2,308,222	2,339,063
Operation and maintenance of facilities	344,348	260,306
Transportation	114,280	79,888
Food services	104,128	66,055
Capital Outlays:		
Equipment	<u>17,228</u>	<u>7,500</u>
TOTAL EXPENDITURES	<u>2,888,206</u>	<u>2,752,812</u>
NET CHANGE IN FUND BALANCES	130,767	(195,236)
FUND BALANCES (DEFICIT), BEGINNING OF YEAR	<u>(207,833)</u>	<u>(12,597)</u>
FUND BALANCES (DEFICIT), END OF YEAR	<u>\$ (77,066)</u>	<u>\$ (207,833)</u>

The accompanying notes are an integral part of these financial statements.

KUUMBA ACADEMY CHARTER SCHOOL
RECONCILIATION OF STATEMENTS OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES -
GOVERNMENTAL FUNDS TO STATEMENTS OF ACTIVITIES
FOR THE YEARS ENDED JUNE 30, 2007 AND 2006

	<u>2007</u>	<u>2006</u>
NET CHANGE IN FUND BALANCES - TOTAL GOVERNMENTAL FUNDS	\$ 130,767	\$ (195,236)

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures. However, in the statement of activities, assets with an initial, individual cost of more than \$2,500 are capitalized and the cost is allocated over their estimated useful lives and reported as depreciation expense.

Capital Outlays	17,228	7,500
Depreciation Expense	<u>(17,048)</u>	<u>(13,956)</u>
CHANGE IN NET ASSETS - GOVERNMENTAL ACTIVITIES	<u>\$ 130,947</u>	<u>\$(201,692)</u>

The accompanying notes are an integral part of these financial statements.

KUUMBA ACADEMY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Description of the Charter School

Kuumba Academy Charter School is organized under Delaware Code, Title 14, Chapter 5 of the State of Delaware. The Charter School Law grants authority for independent public schools to be created for the purpose of increasing choices for parents of public school students and increasing academic performance. A charter school is an independent public school governed by an independent board of directors. In Delaware, charter schools have the same basic standing as a school district with some exceptions - most notably, they may not levy taxes. To encourage innovation, charter schools operate free from a number of state laws and regulations. Kuumba Academy Charter School's initial charter was granted for a three-year period, renewable every five years thereafter. The School was renewed for an additional five years through June 30, 2009.

Charter schools are funded similarly to other public schools in that state and local funds are allocated for each enrolled student. Public funds are not provided for facilities. Charter schools may charge for selected additional costs consistent with those permitted by other school districts. Because a charter school receives local, state and federal funds, they may not charge tuition.

The financial statements of Kuumba Academy Charter School have been prepared in conformity with generally accepted accounting principles as applied to local governmental units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant accounting policies of Kuumba Academy Charter School (the "School") are described below.

Reporting Entity

The School is considered a component unit of the State of Delaware. A component unit, although a legally separate entity, is, in substance, part of the State of Delaware's operations. The School has no component units for which it is considered to be financially accountable.

Entity-wide and Fund Financial Statements

The entity-wide financial statements (the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the School. For the most part, the effect of interfund activity has been removed from these financial statements.

The statement of activities demonstrates the degree to which the direct expenses of a given program are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific program. Program revenues include grants and contributions that are restricted to meeting the operational or capital requirements of a particular function.

Separate financial statements are provided for governmental funds. The major individual governmental funds are reported as separate columns in the fund financial statements.

KUUMBA ACADEMY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Measurement Focus, Basis of Accounting and Financial Statement Presentation

Entity-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Charges to the School are recognized as revenues in the year for which they are billed. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Amounts reported as program revenues include 1) charges to students for special fees, supplies or services provided; 2) operating grants and contributions; and 3) capital grants and contributions. Internally dedicated resources are reported as general revenues rather than as program revenues. Likewise, general revenues include charges to school districts.

When both restricted and unrestricted resources are available for use, it is the School's policy to use restricted resources first, then unrestricted resources as they are needed.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the School considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting.

Charges to the School and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when the School receives cash.

The School reports the following major governmental fund:

- **General Fund.** The general fund is the School's primary operating fund. It accounts for all financial resources of the School.

Budgetary Data

General fund budgets are presented on the modified accrual basis of accounting. Annual appropriations lapse at fiscal year end with the exception of those indicated as a fund balance reserve.

KUUMBA ACADEMY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Encumbrance accounting is employed in the governmental funds. Encumbrances (e.g., purchase orders and contracts) outstanding at year end are reported as reservations of fund balances and do not constitute expenditures or liabilities because the commitments will be reappropriated and honored during the subsequent year. There were no encumbrances outstanding as of June 30, 2007 and 2006.

Cash and Cash Equivalents

Cash and cash equivalents are considered to be cash on hand and demand deposits.

Capital Assets

The School defines capital assets as assets with an initial, individual cost of more than \$2,500 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated cost if purchased or constructed. Donated capital assets are recorded at estimated fair value at the date of donation. The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend lives of the assets are not capitalized. Major outlays for capital assets and improvements are capitalized as projects are constructed. Interest cost incurred during construction is not capitalized.

Capital assets of the School are depreciated using the straight-line method over the estimated useful lives of the related assets. The School generally uses the following estimated useful lives:

Furniture and fixtures	10 years
Equipment	5-7 years
Leasehold improvements	8 years

Deferred Revenues

Deferred revenues represent funds received in advance which will be recognized in future years when the revenue recognition criteria is met. In the general fund, deferred revenues amounted to \$3,835 as of each year ended June 30, 2007 and 2006.

Compensated Absences

Vacation pay plus related payroll taxes are accrued when incurred in the entity-wide financial statements. A liability for these amounts is reported in the governmental funds only when the liability matures, for example, as a result of employee resignations and retirements.

Vacation - Vacation must be taken and cannot be accumulated from year to year. Employees are paid for unused vacation upon termination, retirement, etc. at the current rate of pay.

KUUMBA ACADEMY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

NOTE 1 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Sick Leave - Sick leave allowances are 10 days per full-time employee and cannot be accumulated from year to year.

There were no compensated absences as of June 30, 2007 and 2006.

Fund Balances

In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a restricted purpose. Designations of fund balance represent tentative plans for future use of financial resources that are subject to change.

NOTE 2 CASH AND CASH EQUIVALENTS

At June 30, 2007 and 2006, the School had a cash equivalent balance of \$136,356 and \$99,748, respectively. These funds are part of an investment pool controlled by the personnel of the State Treasurer's Office in Dover, Delaware, and all investment decisions are made by the State Treasurer's Office. These funds are considered to be highly liquid and available for immediate use and, thus, are recorded as cash equivalents in these financial statements.

The funds held by the State of Delaware investment pool, an internal investment pool, are specifically identified for the School, but the credit risk cannot be categorized for these funds. Credit risk for such investments depends on the financial stability of the State of Delaware. The State reports that its investment securities are stated at quoted market prices, except that investment securities with a remaining maturity at time of purchase of one year or less are stated at cost or amortized cost.

NOTE 3 CAPITAL ASSETS

Capital asset activity for the year ended June 30, 2007 is as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental activities:				
Capital assets being depreciated:				
Equipment	\$ 47,232	\$ -	\$ -	\$ 47,232
Leasehold improvements	27,500	17,228	-	44,728
Furniture and fixtures	22,628	-	-	22,628
Total Capital Assets Being Depreciated	<u>97,360</u>	<u>17,228</u>	<u>-</u>	<u>114,588</u>
Accumulated depreciation:				
Equipment	(24,974)	(9,196)	-	(34,170)
Leasehold improvements	(5,000)	(5,591)	-	(10,591)
Furniture and fixtures	(5,367)	(2,261)	-	(7,628)
Total accumulated depreciation	<u>(35,341)</u>	<u>(17,048)</u>	<u>-</u>	<u>(52,389)</u>
Governmental Activities Capital Assets, Net	<u>\$ 62,019</u>	<u>\$ 180</u>	<u>\$ -</u>	<u>\$ 62,199</u>

KUUMBA ACADEMY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

NOTE 3 CAPITAL ASSETS (cont'd)

Depreciation expense was charged to the following activities:

Governmental Activities:	
Instructional services	\$ 9,196
Operation and maintenance	5,591
School lunch services	<u>2,261</u>
	<u>\$ 17,048</u>

Capital asset activity for the year ended June 30, 2006 is as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Governmental activities:				
Equipment	\$ 47,232	\$ -	\$ -	\$ 47,232
Leasehold improvements	20,000	7,500	-	27,500
Furniture and fixtures	<u>22,628</u>	-	-	<u>22,628</u>
Total Capital Assets Being Depreciated	<u>89,860</u>	<u>7,500</u>	-	<u>97,360</u>
Accumulated depreciation:				
Equipment	(15,781)	(9,193)	-	(24,974)
Leasehold Improvements	(2,500)	(2,500)	-	(5,000)
Furniture and fixtures	<u>(3,104)</u>	<u>(2,263)</u>	-	<u>(5,367)</u>
Total accumulated depreciation	<u>(21,385)</u>	<u>(13,956)</u>	-	<u>(35,341)</u>
Governmental Activities Capital Assets, Net	<u>\$ 68,475</u>	<u>\$ (6,456)</u>	<u>\$ -</u>	<u>\$ 62,019</u>

Depreciation expense was charged to the following activities:

Governmental Activities:	
Instructional services	\$ 9,193
Operation and maintenance	2,500
School lunch services	<u>2,263</u>
	<u>\$ 13,956</u>

NOTE 4 PENSION PLAN

Plan Description

School employees are considered state employees and are covered under the State of Delaware Employees' Pension Plan which is a cost-sharing, multiple-employer defined benefit public employees retirement system (the "State PERS"). The State of Delaware General Assembly is responsible for setting benefits and amending plan provisions. The State Board of Pension Trustees determines the contributions required. All eligible state employees are required to contribute to the pension plan according to Chapter 55, Title 29 of the Delaware Code.

KUUMBA ACADEMY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

NOTE 4 PENSION PLAN (cont'd)

All full-time and regular part-time employees are eligible to participate in the State PERS. The State PERS provides pension, disability and death benefits. Certain significant plan provisions follow:

- Early retirement:
 - a. 15 years service - age 55
 - b. 25 years service - any age
- Service retirement:
 - a. 15 years service - age 60
 - b. 30 years service - any age
 - c. 5 years service - age 62
- Disability retirement:
 - a. 5 years service and proof of disability
- Vested pension - an employee can vest pension rights after five years of service.

The State PERS issues a publicly available financial report that includes the financial statements and required supplementary information. That report may be obtained by writing to the State of Delaware Public Employee Retirement System, McArdle Building, Suite 1, 860 Silver Lake Boulevard, Dover, DE 19904, or by calling 1-800-722-7300.

Funding Policy

Employees of the School are required to contribute three percent of earnings in excess of \$6,000. The School's contribution to the State PERS for the years ended June 30, 2007 and 2006 was \$174,200 and \$172,190, respectively.

NOTE 5 LEASING ARRANGEMENTS

The School leases its facility from Christina Cultural Arts Center, Inc. (a related party) under operating leasing arrangements expiring at various dates through April 2012. The School has an obligation to Christina Cultural Arts Center, Inc. to pay rent on the building. The rent is payable in monthly installments of \$15,122. The Center is considered a related party due to the involvement of its employees in the day-to-day activities of the School and because of various services the Center provides to the School which are billed periodically. Total rental expense for the fiscal years ended June 30, 2007 and 2006 was \$181,470 for each year.

At June 30, 2007, minimum future rental payments under noncancelable leasing arrangements having remaining terms in excess of one year for the remaining years and in the aggregate are:

Years Ending June 30,

2008	\$ 181,470
2009	181,470
2010	181,470
2011	181,470
2012	<u>1,787,352*</u>
Minimum future rental payments required	<u>\$2,513,232</u>

* Includes balloon payment of \$1,651,250 due on April 1, 2012.

KUUMBA ACADEMY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

NOTE 5 LEASING ARRANGEMENTS (cont'd)

Operating Lease

The School leases its copier equipment under two separate operating lease arrangements expiring in January 2010 and January 2012. Total rental expense for the years ended June 30, 2007 and 2006 was \$6,595 and \$0, respectively.

At June 30, 2007, the minimum future rental payments under noncancelable leasing arrangements having remaining terms in excess of one year for the remaining years and in the aggregate are:

Years Ending June 30,

2008	\$ 15,756
2009	15,756
2010	12,236
2011	7,307
2012	<u>4,262</u>
Minimum future rental payments required	<u>\$ 55,317</u>

NOTE 6 RELATED PARTY TRANSACTIONS

The leasing arrangement between the School and Christina Cultural Arts Center, Inc. calls for basic rent equal to the debt service of Christina Cultural Arts Center, Inc. (described in Note 8 below) each year with a balloon payment of \$1,651,250 on April 1, 2012.

NOTE 7 RISK MANAGEMENT

The School has purchased commercial insurance policies for various risks of loss related to torts; theft, damage or destruction of assets; errors or omissions; injuries to employees; or acts of God. Payments of premiums for these policies are recorded as expenses of the School. Insurance settlements have not exceeded insurance coverage in either of the past two years. There were no significant reductions in coverage compared to the prior year.

NOTE 8 COMMITMENTS AND CONTINGENCIES

In the normal course of business, there are various outstanding commitments and contingent liabilities in addition to the normal encumbrances for the purchase of goods and services. The School does not anticipate losses from these transactions.

KUUMBA ACADEMY CHARTER SCHOOL

NOTES TO FINANCIAL STATEMENTS

NOTE 8 COMMITMENTS AND CONTINGENCIES (cont'd)

Co-Surety on Mortgage Notes

The School has guaranteed mortgage note obligations for Christina Cultural Arts Center, Inc. (a related party) with Delaware Community Investment Corporation in the original amount of \$2,140,000, maturing April 1, 2012. Installments on the notes are payable monthly. As of June 30, 2007, the outstanding principal balance was \$2,004,013 for the Delaware Community Investment Corporation note.

Grants

The School receives financial assistance from federal agencies in the form of grants. The disbursement of funds received under these programs generally requires compliance with terms and conditions specified in the grant agreements and is subject to audit by the State Office of Auditor of Accounts. Any disallowed claims resulting from such audits could become a liability of the general fund. The School's administration believes such disallowance, if any, would be immaterial.

NOTE 9 ECONOMIC DEPENDENCY

School revenues that constitute in excess of 10 percent of total revenues are comprised of the following:

State Subsidy	54 percent
Local sources (primarily charges to school districts)	36 percent

NOTE 10 FUND DEFICIT

The local and state funds ended the year with a cumulative deficit of \$72,985 and \$4,081, respectively.

NOTE 11 EXCESS OF EXPENDITURES OVER APPROPRIATIONS

The School overspent budgetary appropriations in the following functions:

Travel	\$ 13,042
Communications	\$ 7,299
Transportation - buses	\$ 6,420
Land/building/facilities	\$ 47,989
Repairs and maintenance	\$ 14,889
Supplies and materials	\$ 131,022
Equipment	\$ 16,024

Significant variances are explained in the Management's Discussion and Analysis section of this report.

REQUIRED SUPPLEMENTARY INFORMATION SECTION

KUIUMBA ACADEMY CHARTER SCHOOL
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2007

	Budgeted Amounts		Actual	Variance with
	Original	Final	Amounts	Final Budget Favorable (Unfavorable)
REVENUES:				
Charges to school districts	\$ 756,906	\$ 756,906	\$ 756,906	\$ -
State aid	1,316,194	1,316,194	1,636,625	320,431
Federal aid	301,380	301,380	280,620	(20,760)
Earnings on cash and investments	8,000	8,000	8,459	459
Contributions	130,000	130,000	180,414	50,414
Rentals and sales	79,000	79,000	131,580	52,580
School lunch fees	11,000	11,000	18,717	7,717
Other local sources	5,000	5,000	5,652	652
TOTAL REVENUES	<u>2,607,480</u>	<u>2,607,480</u>	<u>3,018,973</u>	<u>411,493</u>
EXPENDITURES				
Current:				
Salaries	1,799,763	1,799,763	1,690,667	109,096
Travel	2,000	2,000	15,042	(13,042)
Contractual services	420,800	420,800	407,096	13,704
Communications	6,000	6,000	13,299	(7,299)
Public utilities service	80,000	80,000	59,622	20,378
Insurance	21,000	21,000	20,424	576
Transportation - buses	107,860	107,860	114,280	(6,420)
Land/building/facilities	181,470	181,470	229,459	(47,989)
Repairs and maintenance	100,000	100,000	114,889	(14,889)
Supplies and materials	72,382	72,382	203,404	(131,022)
Capital Outlays:				
Equipment	4,000	4,000	20,024	(16,024)
TOTAL EXPENDITURES	<u>2,795,275</u>	<u>2,795,275</u>	<u>2,888,206</u>	<u>(92,931)</u>
OTHER FINANCING SOURCES (USES)				
Budgetary reserve	187,795	187,795	-	(187,795)
TOTAL OTHER FINANCING SOURCES	<u>187,795</u>	<u>187,795</u>	<u>-</u>	<u>(187,795)</u>
NET CHANGE IN FUND BALANCE	-	-	130,767	130,767
FUND BALANCE (DEFICIT), BEGINNING OF YEAR	(207,833)	(207,833)	(207,833)	-
FUND BALANCE (DEFICIT), END OF YEAR	<u>\$ (207,833)</u>	<u>\$ (207,833)</u>	<u>\$ (77,066)</u>	<u>\$ 130,767</u>

NOTE: The School's budget is presented on the modified accrual basis of accounting.

SUPPLEMENTARY SECTION

KUIUMBA ACADEMY CHARTER SCHOOL
COMBINING BALANCE SHEET - GENERAL FUND
JUNE 30, 2007
(with Summarized Comparative Data for June 30, 2006)

	State Allocation	Local Funding	Federal Funding	Totals	2007	2006*
ASSETS						
CURRENT ASSETS:						
Cash and cash equivalents:						
Unrestricted	\$ 28,294	\$ 108,062	\$ -	\$ 136,356	\$ 136,356	\$ 99,748
Receivables:						
Due from Christina School District	-	12,652	-	12,652	12,652	-
Due from Colonial School District	-	2,335	-	2,335	2,335	-
Other receivables	-	14,222	1,537	15,759	15,759	3,348
TOTAL ASSETS	<u>\$ 28,294</u>	<u>\$ 137,271</u>	<u>\$ 1,537</u>	<u>\$ 167,102</u>	<u>\$ 167,102</u>	<u>\$ 103,096</u>
LIABILITIES AND FUND BALANCES						
LIABILITIES:						
Accounts payable						
Trade	\$ 32,375	\$ -	\$ 1,537	\$ 33,912	\$ 33,912	\$ 22,052
Due to State of Delaware - pension costs	-	27,195	-	27,195	27,195	42,231
Accrued salaries	-	179,226	-	179,226	179,226	242,811
Deferred revenue	-	3,835	-	3,835	3,835	3,835
TOTAL LIABILITIES	<u>32,375</u>	<u>210,256</u>	<u>1,537</u>	<u>244,168</u>	<u>244,168</u>	<u>310,929</u>
FUND BALANCES (DEFICIT):						
Unreserved (Deficit)	(4,081)	(72,985)	-	(77,066)	(77,066)	(207,833)
TOTAL FUND BALANCES (DEFICIT)	<u>(4,081)</u>	<u>(72,985)</u>	<u>-</u>	<u>(77,066)</u>	<u>(77,066)</u>	<u>(207,833)</u>
TOTAL LIABILITIES AND FUND BALANCES	<u>\$ 28,294</u>	<u>\$ 137,271</u>	<u>\$ 1,537</u>	<u>\$ 167,102</u>	<u>\$ 167,102</u>	<u>\$ 103,096</u>

* Restated for comparative purposes.

KIUUMBA ACADEMY CHARTER SCHOOL
COMBINING STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2007

(with Summarized Comparative Data for the Year Ended June 30, 2006)

	State Allocation	Local Funding	Federal Funding	Totals	
				2007	2006
REVENUES					
Charges to school districts	\$ -	\$ 756,906	\$ -	\$ 756,906	\$ 628,277
State aid	1,636,625	-	-	1,636,625	1,388,319
Federal aid	-	-	280,620	280,620	336,112
Earnings on cash and investments	-	8,459	-	8,459	11,313
Contributions	-	180,414	-	180,414	93,852
Rental and sales	-	131,580	-	131,580	79,268
School lunch fees	-	18,717	-	18,717	20,062
Other local sources	-	5,652	-	5,652	373
TOTAL REVENUES	<u>1,636,625</u>	<u>1,101,728</u>	<u>280,620</u>	<u>3,018,973</u>	<u>2,557,576</u>
EXPENDITURES					
Current:					
Instructional services	1,294,456	733,146	280,620	2,308,222	2,339,063
Operation and maintenance					
of facilities	261,579	82,769	-	344,348	260,306
Transportation	66,031	48,249	-	114,280	79,888
Food services	18,498	85,630	-	104,128	66,055
Capital outlays:					
Equipment	17,228	-	-	17,228	7,500
TOTAL EXPENDITURES	<u>1,657,792</u>	<u>949,794</u>	<u>280,620</u>	<u>2,888,206</u>	<u>2,752,812</u>
NET CHANGE IN FUND BALANCES	(21,167)	151,934	-	130,767	(195,236)
FUND BALANCES (DEFICIT),					
BEGINNING OF YEAR	<u>17,086</u>	<u>(224,919)</u>	<u>-</u>	<u>(207,833)</u>	<u>(12,597)</u>
FUND BALANCES (DEFICIT),					
END OF YEAR	<u>\$ (4,081)</u>	<u>\$ (72,985)</u>	<u>\$ -</u>	<u>\$ (77,066)</u>	<u>\$ (207,833)</u>

KUUMBA ACADEMY CHARTER SCHOOL
SCHEDULE OF EXPENDITURES BY NATURAL CLASSIFICATION - GENERAL FUND
FOR THE YEAR ENDED JUNE 30, 2007

EXPENDITURES

Current:

Salaries	\$ 1,204,967
Employment costs	485,700
Travel	15,042
Contractual services	407,096
Communications	13,299
Public utilities	59,622
Insurance	20,424
Transportation	114,280
Land/building/facilities	229,459
Repairs and maintenance	114,889
Supplies and materials	203,404

Capital Outlays:

Equipment	<u>20,024</u>
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TOTAL EXPENDITURES

\$2,888,206

Dover, Delaware
800.355.8210
Media, Pennsylvania
610.565.5222

**INDEPENDENT AUDITORS' REPORT ON
INTERNAL CONTROL OVER FINANCIAL REPORTING
AND ON COMPLIANCE AND OTHER MATTERS
BASED ON AN AUDIT OF FINANCIAL STATEMENTS
PERFORMED IN ACCORDANCE WITH
GOVERNMENT AUDITING STANDARDS**

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December 4, 2007

Board of Directors
Kuumba Academy Charter School
Wilmington, Delaware

We have audited the financial statements of the governmental activities and general fund of Kuumba Academy Charter School, Wilmington, Delaware as of and for the year ended June 30, 2007, which collectively comprise the School's basic financial statements, and have issued our report thereon dated December 4, 2007. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered Kuumba Academy Charter School's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Kuumba Academy Charter School's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the School's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However, as discussed below, we identified certain deficiencies in internal control over financial reporting that we consider to be significant deficiencies.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the School's ability to initiate, authorize, record, process or report financial data reliably in accordance with generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the School's financial statements that is more than inconsequential will not be prevented or detected by the School's internal control. The significant deficiencies are described in the accompanying schedule of findings and recommendations as items #02-1, #03-1, #04-2, #04-6, #05-1, #06-1, #07-1 and #07-2.

Board of Directors
Kuumba Academy Charter School

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statements will not be prevented or detected by the School's internal control.

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we believe that none of the significant deficiencies described in the accompanying schedule of findings and recommendations are material weaknesses.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether Kuumba Academy Charter School's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion.

The results of our tests disclosed an instance of noncompliance that is required to be reported under *Government Auditing Standards* and which is described in the accompanying schedule of findings and recommendations as item #02-1.

This report is intended for the information and use of the Board of Directors, management, the Department of Education, Office of the Governor, Office of the Controller General, Office of Attorney General, Office of the Budget, Office of Auditor of Accounts and the Department of Finance; and is not intended to be and should not be used by anyone other than these specified parties. However, under 29 Del. C., Section 10002(d), this report is a public record and its distribution is not limited.

Barbacane, Thornton & Company
BARBACANE, THORNTON & COMPANY

KUUMBA ACADEMY CHARTER SCHOOL

SCHEDULE OF FINDINGS AND RECOMMENDATIONS

STATUS OF PRIOR YEAR FINDINGS

HUMAN RESOURCE FUNCTION

02-1 Finding

Review of the human resource function revealed that certain personnel files did not contain documentation of salary, employee withholding allowances certificates or W-4, INS (Immigration and Naturalization Service) Form I-9, teacher certificates or background checks. Out of the files reviewed, we noted that several had incomplete or missing information.

The Immigration Reform and Control Act of 1986 requires all employers to verify "employment eligibility" of any individual hired after November 6, 1986 by completing and retaining INS Form I-9.

The Delaware Code, Title 14, Section 507(c) states that "a charter school may, where it deems it beneficial to the success of its educational program, hire non-certified teachers so long as such teachers comprise no more than 35% of the teachers at the school."

Delaware Department of Education (DOE) requires that all final candidates for public school-related employment are required to have a criminal background check (DOE Administrative Code Section 745).

The Internal Revenue Code requires the information on the Employee's Withholding Allowance Certificate under Sections 3402(f)(2)(A) and 6109 and their regulations.

Recommendation

We recommended that the School develop monitoring procedures to ensure that all personnel files contain all necessary documentation required for compliance with federal, state and local laws.

Status

During our current year audit, we noted that three out of 10 personnel files did not contain updated salary information and six out of 10 personnel files did not contain updated W-4 forms. We further noted that five out of 10 personnel files tested did not contain a properly completed I-9 form and two out of 10 personnel files did not contain a verification that a background check was performed. This finding is still applicable for the current year.

Corrective Action Plan

The School has reviewed each of the current personnel files to ensure they were all in compliance with federal, state and local laws. The personnel files will be the responsibility of a designated person and periodically reviewed and/or updated throughout the year. The School also will utilize a checklist to ensure consistency and that all files contain the necessary paperwork. The employee and Human Resources will be responsible for ensuring that the required documentation is in the files.

KUUMBA ACADEMY CHARTER SCHOOL

SCHEDULE OF FINDINGS AND RECOMMENDATIONS (CONT'D)

STATUS OF PRIOR YEAR FINDINGS

INVENTORY AND DETAILED RECORDS

03-1 Finding

During our prior year audits, we noted that updated records for property and equipment items are not being maintained on a School-wide basis. The establishment of updated subsidiary records will assist the Charter School in maintaining control over individual assets and provide a means whereby information pertinent to the property and equipment assets can be kept up to date.

Recommendation

We recommended that a physical count of property should be periodically taken and compared to the items carried on the detailed subsidiary records of property and equipment. Such physical counts will help to detect the loss or unauthorized use of valuable property.

Status

During our current year audit, we noted an improvement over the prior year fixed asset listing. However, we still recommend that the School conduct a physical count of property and compare to the items carried on the detailed subsidiary records listing of property and equipment.

Corrective Action Plan

Administration will make a comprehensive review of all School-wide assets and document them to specific categories, i.e., technology, audio-visual equipment, furniture and kitchen equipment.

SUPPORTING DOCUMENTATION

04-2 Finding

During our prior year audits, we noted that payments are not always made from an original invoice. This was due to management oversight. In order for the School to ensure that the payments being made are only for those costs incurred, it is imperative that its procedures on internal control be followed and all invoices be attached to the request for payment at the time of processing.

Recommendation

We recommended that the School follow its procedures on internal control and require all invoices to be attached to the payment vouchers prior to being processed for payments.

Status

During our current year audit, we noted that there were three instances in which the original invoice could not be located. This finding is still applicable for the current year.

KUUMBA ACADEMY CHARTER SCHOOL

SCHEDULE OF FINDINGS AND RECOMMENDATIONS (CONT'D)

STATUS OF PRIOR YEAR FINDINGS

Corrective Action Plan

Administration will continue to ensure that payments are made from an original invoice. However, the School will revise its current procedure to clearly specify exceptions wherein other support documentation, other than original invoices, may be accepted when payments are being processed.

REIMBURSEMENT OF CONTRACT EMPLOYEES

04-6 Finding

During our prior year audits, we noted that there are expenditures made to Christina Cultural Arts Center to reimburse for arts teachers who are employed by Christina Cultural Arts Center but teach at the School. These reimbursements are not supported in writing by an agreement between the Arts Center and the School. The School's internal control procedures require all expenditures to be properly approved by management. Center employees process these invoices prior to management approval, bypassing the control of management approval. This is due to management oversight. We further noted that the School pays for the employees' health benefits and an administrative fee to the Arts Center for this service.

Recommendation

We recommended that an agreement be put in writing to incorporate the following:

- 1) The salary rate at which the contract employee will be paid.
- 2) The rate at which an administrative fee will be assessed to the School for the services.
- 3) The additional expenditures that will be paid by the School (ie: healthcare).

Status

During our current year audit, we noted that there now is a written agreement between Kuumba Academy Charter School and Christina Cultural Arts Center, Inc. This finding is no longer applicable.

DISBURSEMENTS

05-1 Finding

During our prior year audits, we noted that payment vouchers (PVEs) were processed for payment before being properly approved. In accordance with the State of Delaware's Budget and Accounting Manual, all expenditures should be approved for payment prior to issuance of the check. In order to ensure that expenditures are proper and correct, it is critical that all invoices be reviewed by management prior to the disbursement of funds.

KUUMBA ACADEMY CHARTER SCHOOL

SCHEDULE OF FINDINGS AND RECOMMENDATIONS (CONT'D)

STATUS OF PRIOR YEAR FINDINGS

Recommendation

We recommended that management review and approve all invoices before they are processed for payment.

Status

During our current year audit, we noted that 37 out of 40 expenditures were properly approved; however, three invoices could not be located to complete our testing. This finding is still applicable for the current year.

Corrective Action Plan

The system was designed to ensure only management has the authority to release funds for payment. In cases of paying routine invoices (i.e., utilities, going contractual services, preapproved purchases, etc.), there are exceptions when payment is made based on preauthorized spending. However, at least one administrator signs off on the PVEs prior to payment regardless of the dollar amount only in cases for which the purchase was preapproved at the highest level in accordance with the delegation of authorities. This may not have been clearly communicated in the School's policies and procedures. Management will revise the policies and procedures to reflect its current practices.

BUDGET

06-1 Finding

During our prior year audit, we noted that the amount used for budgetary reserve to balance the budget had no supporting documentation.

Recommendation

We recommended that management review its budgetary procedures to ensure proper reporting.

Status

During our current year audit, we noted that there are not yet budgetary procedures in place to ensure proper reporting. This finding is still applicable for the current year.

Corrective Action Plan

Management will develop procedures to make sure the budget is accurate, with supporting documentation.

KUUMBA ACADEMY CHARTER SCHOOL

SCHEDULE OF FINDINGS AND RECOMMENDATIONS (CONT'D)

CURRENT YEAR FINDINGS AND RECOMMENDATIONS

SEGREGATION OF DUTIES

07-1 Finding

During our current year audit, we noted that the individual approving most vouchers (under \$2,500) also is authorized to sign checks. According to the State's Budget and Accounting Manual, there should be a proper segregation of duties. This situation is due to an insufficient number of accounting personnel. The effect of this departure from generally accepted accounting principles is a possible misstatement of the financial and accounting records.

Recommendation

We recommend that management review its accounting policies and procedures and implement appropriate segregation of duties.

Corrective Action Plan

Management is aware of this problem and will attempt to segregate duties in the future.

JOURNAL ENTRIES

07-2 Finding

During our current year audit, we noted that the School did not prepare all journal entries which would convert the financial statements from cash basis to accrual basis. Although the School did review all journal entries proposed and agreed with all the entries, in the future, it would be beneficial to practice and develop a better understanding of the effect of conversion entries of cash to accrual and GASB No. 34 conversion entries.

Recommendation

We recommend that the School develop the necessary workpapers and support for the accrual and conversion.

Corrective Action Plan

In the future, the School's Business Manager will prepare all journal entries prior to the audit.